

Core Fund Annuity Adjustments and Effective Rate Projections

Employee Trust Funds Board
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Division of Trust Finance



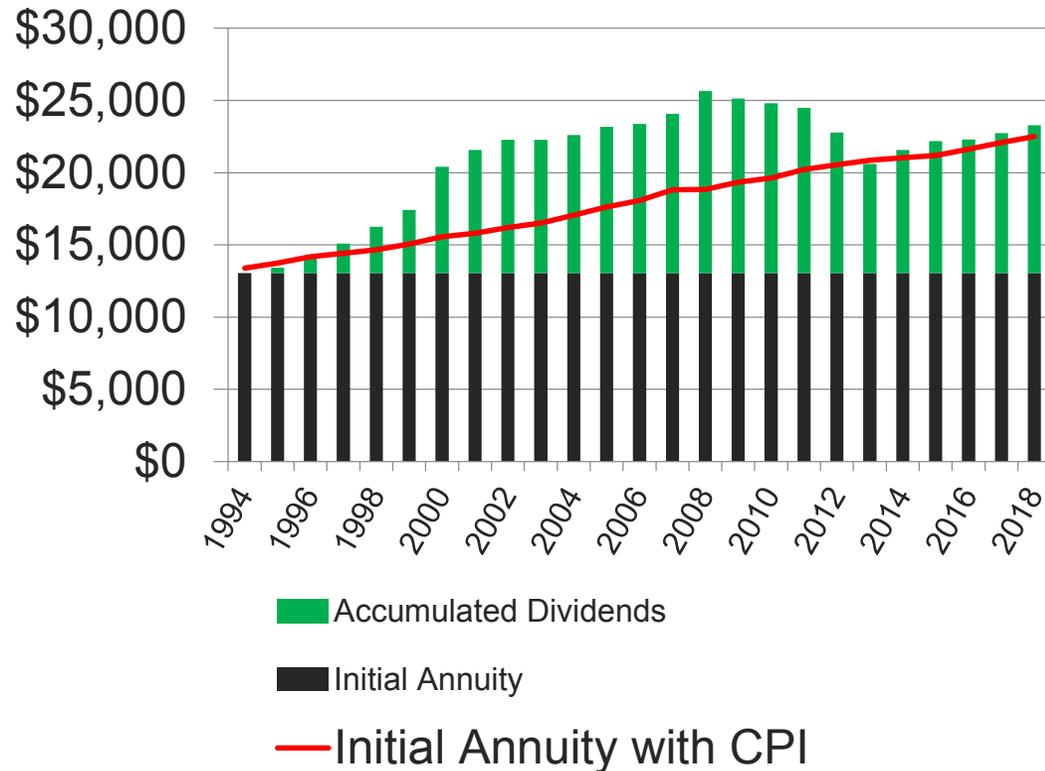
Current Value of Annuities*

If You Retired in	A \$1,000 Core Annuity is Receiving	The Annual Rate of Increase is	A \$1,000 Variable Annuity is Receiving	The Annual Rate of Increase is	The Annual Change in CPI is
2014	\$1,080	1.6%	\$1,061	1.2%	1.5%
2009	\$1,131	1.2%	\$1,821	6.2%	1.8%
2004	\$1,131	0.8%	\$1,280	1.7%	2.1%
1999	\$1,336	1.5%	\$1,082	.4%	2.2%
1994	\$1,785	2.3%	\$1,862	2.5%	2.2%

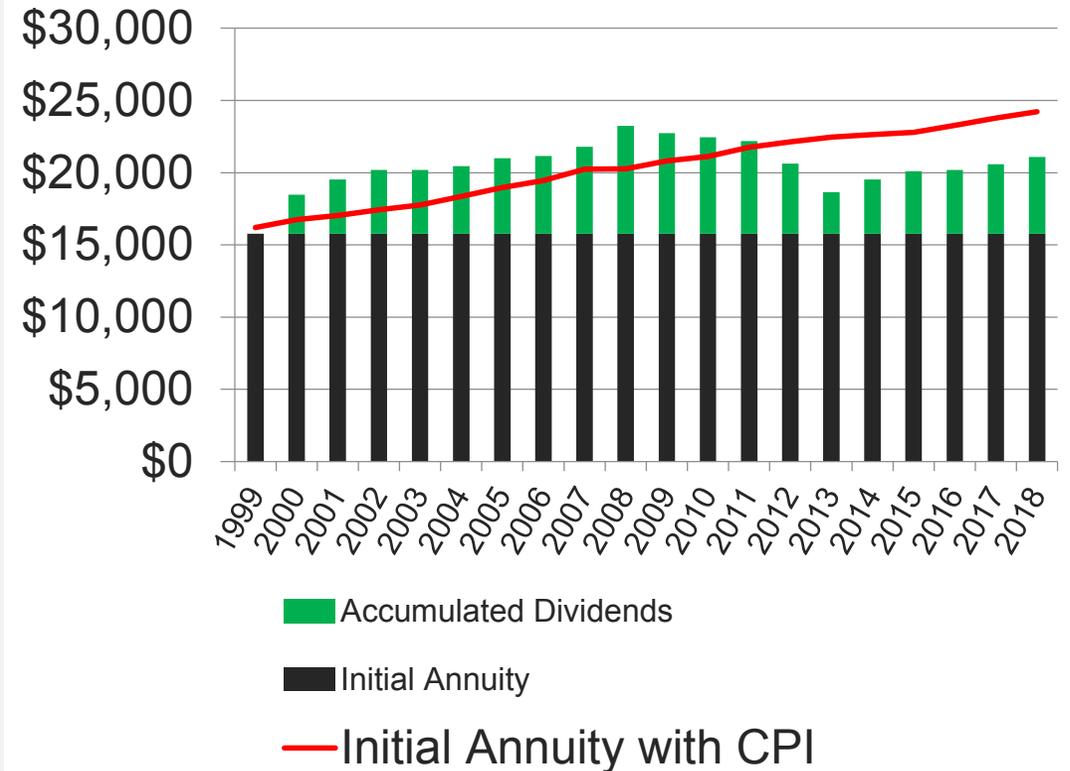
*Including annuity adjustments (if any) to be made effective April 1, 2019

A Look at Core Annuity Increases versus Cost of Living

Change in Value of 1994 Annuity (3,181 annuitants)

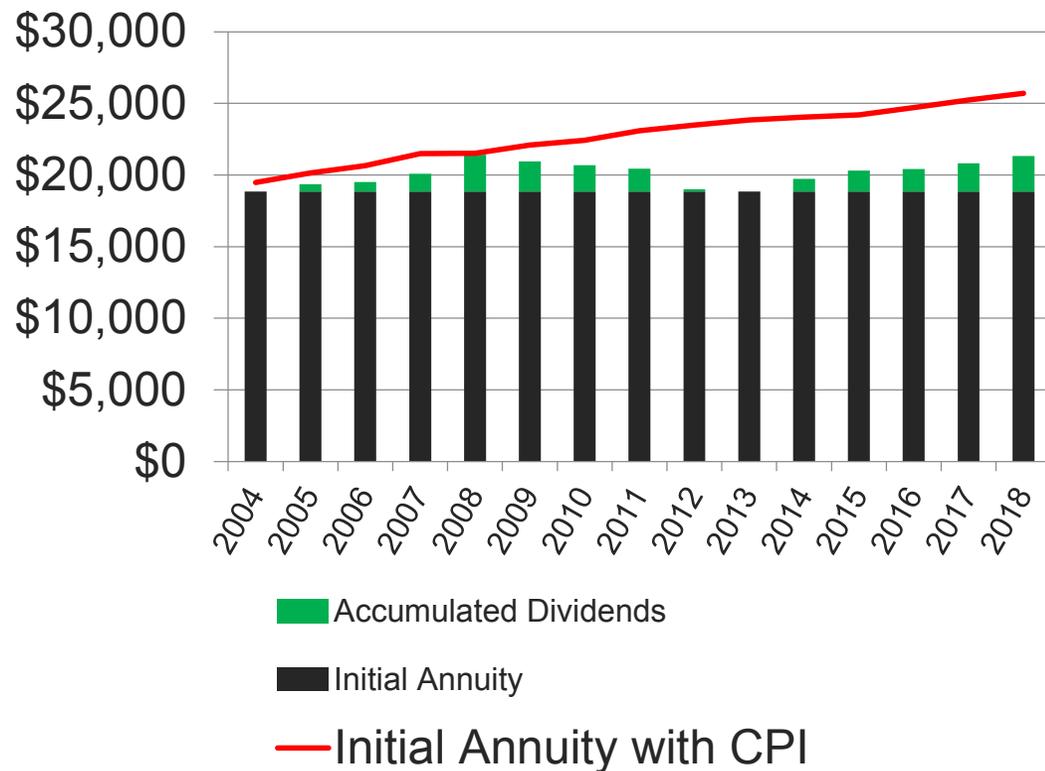


Change in Value of 1999 Annuity (5,387 annuitants)

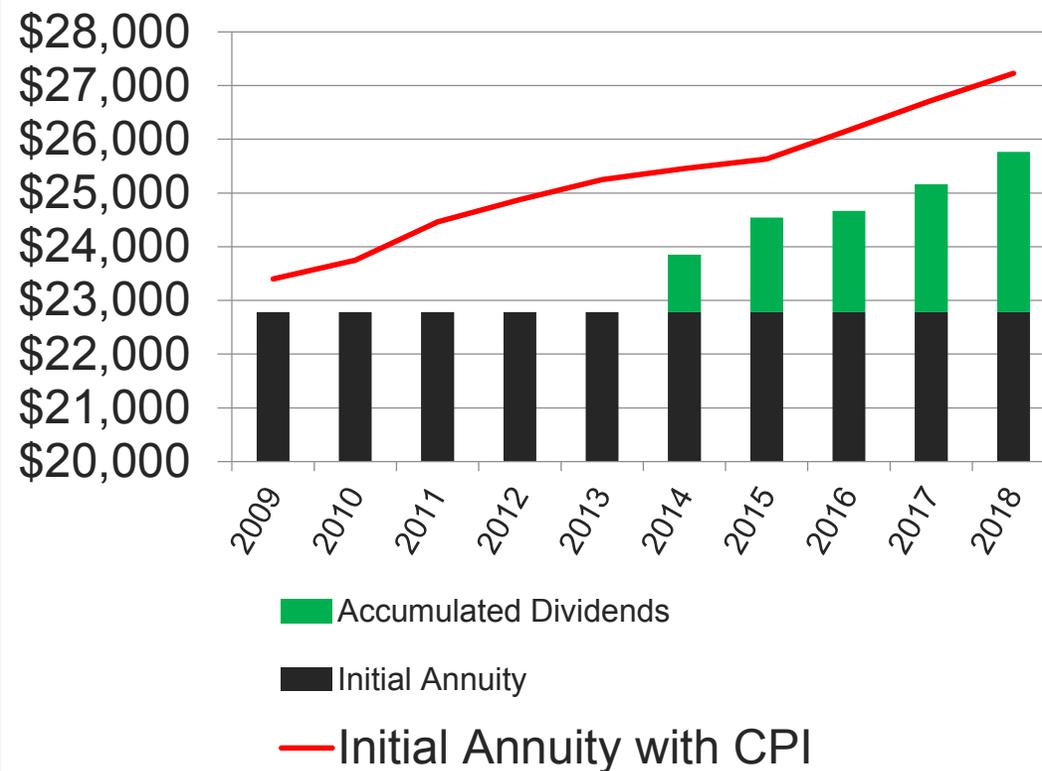


A Look at Core Annuity Increases versus Cost of Living

Change in Value of 2004 Annuity (7,118 annuitants)

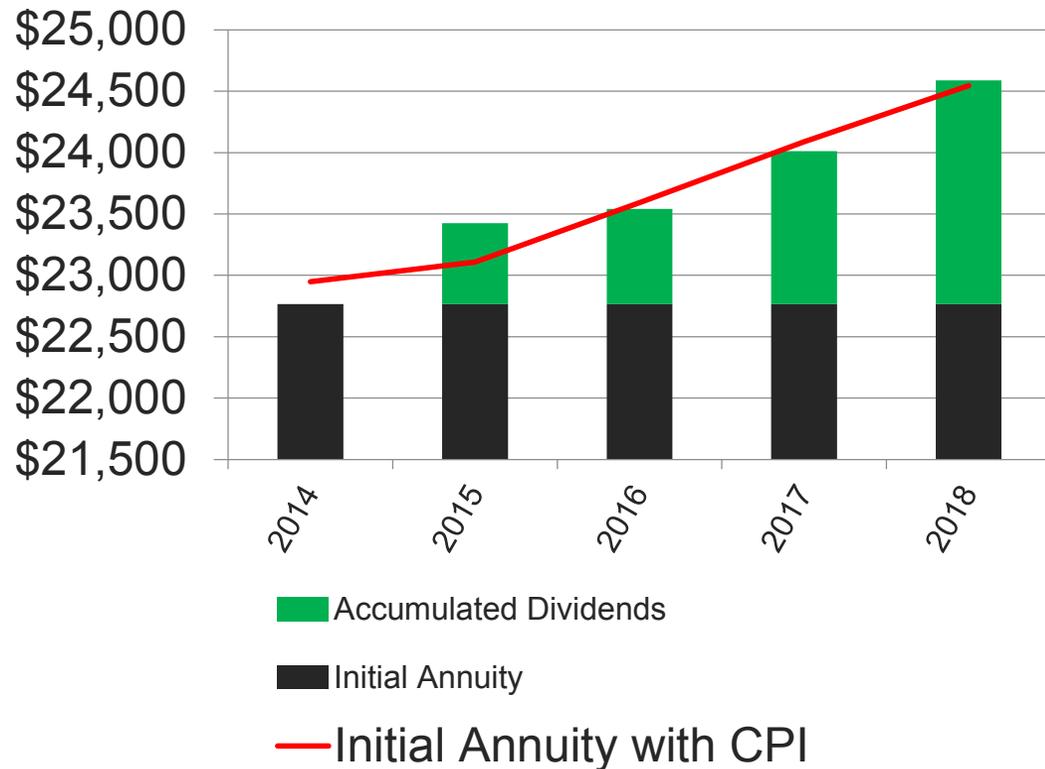


Change in Value of 2009 Annuity (7,870 annuitants)



A Look at Core Annuity Increases versus Cost of Living

Change in Value of 2014 Annuity
(9,339 annuitants)





Annuity Adjustment Projections

Annuity Adjustment Projections

- Projections only. Several assumptions and estimates used.
- Only an actuarial valuation can accurately calculate the annuity adjustments.
- Useful for anticipating the magnitude, not exact amount, of future adjustments.

The Basics

- Annuities will be increased if annuity reserve surplus provides at least a 0.5% increase. Annuities will be reduced if annuity reserve shortfall would require at least a -0.5% adjustment.
- Negative adjustments can only reduce increases granted in prior years. A core annuity cannot be reduced below the original value.
- In calculating annuity adjustments, a 5.0% assumed investment return is used to fund the original benefit. Thus, in a world where experience matched assumptions each year perfectly, annuitants would receive a 2.0% adjustment each year (7.0% less 5.0%). We don't live in that world.

Assumptions

- Based on 2018 Core Trust Fund net of fee investment return.
- 0.2% per year is reserved for mortality improvement and is not available for annuity adjustments.
- The projections include 2015 - 2018 investment gains and losses carried forward in the Market Recognition Account (MRA).

Market Recognition Account

- Investment gains / losses are “smoothed” through the Market Recognition Account (MRA):
 - The MRA is intended to give recognition to long-term changes in asset values while minimizing the impact of short-term fluctuations in the capital markets;
 - Investment gains equal to the assumed rate of 7.0% are recognized;
 - The difference between actual gains or losses and the assumed rate is spread equally over 5 years.

Investment Gain/Loss to be Recognized in Future Years

Year Earned	Year to Be Recognized (millions \$)					Core Net of Fee Investment Return
	2018	2019	2020	2021	2022	
2019		?	?	?	?	?
2018	(2,048)	(2,048)	(2,048)	(2,048)	(2,048)	(3.66%)
2017	1,461	1,461	1,461	1,461		15.82%
2016	119	119	119			8.29%
2015	(1,344)	(1,344)				(.67%)
2014	(242)					5.40%
Totals	(2,054)	(1,812)	(468)	(587)	(2,048)	

Result of 7.0% Investment Return in 2019 - 2022

	2018	2019	2020	2021	2022
SWIB Net Investment Return	(3.66%)	7.0%	7.0%	7.0%	7.0%
Effective Rate	5.0%	5.0% to 5.4%	6.4% to 6.8%	6.3% to 6.7%	4.8% to 5.2%
Average Annuity Adjustment	0%	0% to (.7%)	.6% to 1.0%	.7% to 1.1%	0% to (.5%)

Result of 5% Investment Return in 2019 and 7.0% in 2020 - 2022

	2018	2019	2020	2021	2022
SWIB Net Investment Return	(3.66%)	5%	7.0%	7.0%	7.0%
Effective Rate	5.0%	4.6% to 5.0%	6.0% to 6.4%	5.8% to 6.2%	4.3% to 4.7%
Average Annuity Adjustment	0%	(.7%) to (1.1%)	0% to .5%	.8% to 1.2%	(.6%) to (1.0%)

Result of 0% Investment Return in 2019 and 7.0% in 2020 - 2022

	2018	2019	2020	2021	2022
SWIB Net Investment Return	(3.66%)	0%	7.0%	7.0%	7.0%
Effective Rate	5.0%	3.6% to 4.0%	5.0% to 5.4%	4.8% to 5.2%	3.2% to 3.6%
Average Annuity Adjustment	0%	(1.6%) to (2.0%)	0% to (.8%)	0% to (.7%)	(1.7%) to (2.1%)



Questions?

Thank you



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